

CD/ED

~~CONFIDENTIAL~~
~~SECRET~~

COPY NO. 18
OCI NO. 0053/57

10 January 1957

CURRENT INTELLIGENCE WEEKLY SUMMARY

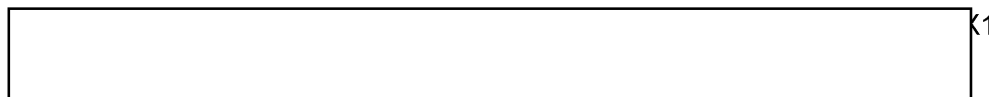


DOCUMENT NO. 4
NO CHANGE IN CLASS. ☐
☐ DECLASSIFIED
CLASS. CHANGED TO: TS S 25X1
NEXT REVIEW DATE: 1989
AUTH: HR 70-2
DATE: 1 Aug 79 REVIEWER:

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

State Department review completed

~~CONFIDENTIAL~~
~~SECRET~~



THIS MATERIAL CONTAINS INFORMATION AFFECT-
ING THE NATIONAL DEFENSE OF THE UNITED STATES
WITHIN THE MEANING OF THE ESPIONAGE LAWS,
TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMIS-
SION OR REVELATION OF WHICH IN ANY MANNER TO
AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

The Current Intelligence Weekly Summary has been prepared
primarily for the internal use of the Central Intelligence
Agency. It does not represent a complete coverage of all
current situations. Comments and conclusions represent
the immediate appraisal of the Office of Current Intelligence.

~~CONFIDENTIAL~~
~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

MIDDLE EAST DEVELOPMENTS Page 1

Suez Canal clearing operations have proceeded, and the Egyptian radio has stated that British and French ships will not be allowed to use the canal until Israel returns the Gaza strip to Egyptian control. Israel is building up its armed strength in the Gulf of Aqaba to support its claim to freedom of navigation there. Tel Aviv also is busy preparing for the diplomatic battle which may open now that its forces have completed the present phase of their withdrawal in eastern Sinai.

[REDACTED]

ADEN-YEMEN BORDER SITUATION Page 3

With Egyptian, Soviet and Saudi Arabian encouragement, attacks by Yemeni tribesmen in the ill-defined border region separating the Aden Protectorate from Yemen and Saudi Arabia have increased since late November. This has led to British counteraction which has been exploited in Arab and Soviet propaganda.

[REDACTED]

25X1

25X1

[REDACTED]

HUNGARIAN REGIME RETURNS TO COMMUNIST ORTHODOXY Page 6

Soviet policy toward Hungary--as reflected in the Soviet-Satellite communiqué of 4 January and the subsequent declaration of Hungarian government policy--is now similar to Soviet policy toward all the other Satellites, excluding Poland. Although giving lip service to some of its earlier pledges of a liberal and national Communist program, the regime's announcement of 6 January promised a tough internal political line aimed at re-establishing the firm control of the "proletarian dictatorship." It also proclaimed a foreign policy line which puts allegiance to the USSR above everything else.

[REDACTED]

~~CONFIDENTIAL~~

~~SECRET~~

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

THE SOVIET-EAST GERMAN AGREEMENTS Page 8

The agreements reached by the Soviet Union and East Germany during talks concluded on 7 January are intended to further the latter's claims to the status of a sovereign nation and shore up its shaky economy. [REDACTED]

25X1

PART II

NOTES AND COMMENTS

SOVIET POLICY TOWARD THE SATELLITES Page 1

The Soviet-Satellite communiqué of 4 January indicates that the evolutionary, post-Stalin trend toward greater autonomy for the Satellites and increased responsibility for their Communist parties has been halted. Although at least temporarily accepting the Gomulka regime in Poland, the Soviet regime has insisted elsewhere on total conformity to its dictates and has repeatedly stressed the theme of "unbreakable unity" within the socialist camp. [REDACTED]

25X1

SINO-SOVIET REACTION TO US MIDDLE EAST PROPOSALS Page 3

Moscow reacted to President Eisenhower's message to Congress on the Middle East with strong public denunciations of the American plan as "flagrant intervention." Moscow contrasted the Soviet and American approaches to the Middle East, and Peiping and Moscow have co-operated in efforts to create an impression of world-wide hostility to the President's proposals. [REDACTED]

25X1

INDONESIA Page 4

Prime Minister Ali's concessions to provincial demands for greater local autonomy appear so far to have had no effect in settling army-led dissatisfaction in Sumatra, and there is a continuing possibility of armed clashes between North Sumatran Communists and the forces of Col. Simbolon. The Masjumi party's withdrawal from the Indonesian cabinet on 9 January will not necessarily mean the immediate fall of the Ali government. The cabinet's survival will depend on the action of the other major Moslem party, the Nahdlatul Ulama, which previously had stated it intended to support Ali's National Party to preserve the cabinet. [REDACTED]

25X1

~~SECRET~~

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

THE KASHMIR DISPUTE Page 5

Pakistan's new proposal for action on a plebiscite in Kashmir, which is expected to be presented to the UN Security Council on 15 January, may result in deeper UN involvement in this dispute between Pakistan and India. Such a development would be a defeat for Indian policy, which has sought for the past two years to minimize UN interest in the problem. [REDACTED]

25X1

INDIA'S FOREIGN EXCHANGE CRISIS
THREATENS SECOND FIVE-YEAR PLAN Page 7

The decline in India's foreign exchange reserves to the minimum level of safety has forced New Delhi to seek at least \$100,000,000 from the International Monetary Fund. Such assistance would ease only temporarily India's foreign exchange problem, which is caused chiefly by rising prices for the industrial goods needed to fulfill the Second Five-Year Plan. Unless India receives increased foreign aid, it probably will have to reduce the scope of the plan, which will have grave political consequences, since Nehru and the Congress Party have committed their prestige to its fulfillment. [REDACTED]

25X1

COMMUNIST CHINA'S ECONOMIC PROGRAM Page 7

Communist China scored impressive economic advances during 1956, particularly in heavy industry, but there are signs that a nagging concern over the economic imbalances resulting from the overriding priority given heavy industry may induce modest changes in Peiping's planning. [REDACTED]

25X1

VENEZUELA TO INCREASE ITS LATIN AMERICAN AID PROGRAM . . Page 9

The Venezuelan regime, which is in a strong fiscal position, apparently is attempting to raise its prestige in the hemisphere through a limited foreign aid program. While sponsoring a proposal for a general Latin American development fund, Venezuela is also considering bilateral loan arrangements with Ecuador, Bolivia, and Colombia, in addition to the military and other assistance it is now providing Panama and Haiti. [REDACTED]

25X1

~~SECRET~~

iii

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

BRITAIN'S FINANCIAL SITUATION Page 10

Britain was able to stop the immediate threat to the pound and close the year with gold and dollar reserves slightly higher than at the end of 1955 by using a credit of \$560,000,000 from the International Monetary Fund. Some further improvement is expected in the next few months, but the full economic effect of the Suez crisis has not yet been felt and Britain's long-term trade and payments situation remains precarious. [REDACTED]

25X1

KREMLIN ATTACKS "ALIEN" CULTURAL INFLUENCES Page 11

Soviet propaganda is continuing its campaign for vigilance, with attacks on "alien influences" on the Soviet population, particularly historians, philosophers and scientists. Soviet intellectuals in general were called on "to guard the purity of Marxist-Leninist theory, to wage an unrelenting struggle against bourgeois ideology, and to strengthen Communist indoctrination of the masses." [REDACTED]

25X1

PART III

PATTERNS AND PERSPECTIVES

THE CHINESE COMMUNIST VIEW OF "ROADS TO SOCIALISM" . . . Page 1

The Chinese Communists regard the "road of socialism" --for Peiping or any other Communist regime--as requiring essential fidelity to the Soviet model in constructing a new society, and a close alliance with the Soviet party and state. The Russians and Chinese agree that Peiping's gradual approach to such problems as collectivization is an example of the acceptable variation from the Soviet pattern under the theory of varying "forms of transition" to socialism. The Chinese in recent months have, however, criticized some aspects of Soviet policies in Eastern Europe. Peiping apparently sees its role as that of exercising a moderating influence within the bloc in the hope that the Sino-Soviet type of relationship can be developed in Eastern Europe. [REDACTED]

25X1

~~SECRET~~

iv

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

10 January 1957

NEW PIPELINES FOR THE MIDDLE EAST Page 6

Even before the closure of the Suez Canal and in view of its limited capacity, plans had been laid for the construction of new pipelines to carry Middle East oil to Mediterranean ports in order to meet Western Europe's rapidly increasing need for oil. Political factors may now prevent or seriously delay implementation of most of these plans. [REDACTED]

25X1

**SOVIET RELATIONS WITH EGYPT AND SYRIA
SINCE THE CEASE-FIRE Page 9**

Since the cease-fire on 6 November, the USSR has encouraged Egyptian obstruction of a settlement of area problems and has promoted Syria as another base for Soviet activity in the Middle East. Moscow appears particularly concerned about the effects in the area of the Eisenhower proposals and the upswing in American prestige. Accordingly, Soviet propaganda is attempting to turn Arab nationalism against the United States and arouse Arab suspicions of American intentions in the Middle East. [REDACTED]

25X1

MOLLET GOVERNMENT FACES UNCERTAIN FUTURE Page 12

Premier Mollet faces the reconvening of the National Assembly on 15 January with his parliamentary position seriously weakened by France's economic crisis and with some political leaders predicting his fall by February. His government's future will be increasingly difficult, and the debates expected in January or early February on additional expenditures for Algeria and oil procurement will probably sap much of his remaining strength in the assembly. [REDACTED]

25X1

25X1

**SECRET**

v

~~CONFIDENTIAL~~
~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

PART I

OF IMMEDIATE INTEREST

MIDDLE EAST DEVELOPMENTS

Israel

Israel is building up its armed strength in the Gulf of Aqaba both to support its diplomatic claims to freedom of navigation there and to ensure that it will be able to enforce these claims should diplomacy prove unsatisfactory. Two Israeli frigates have arrived at Eilat, the Israeli port at the head of the gulf.

These moves, like the earlier Israeli request for specific guarantees from the United States, are part of Tel Aviv's preparation for the diplomatic battle which may be joined now that the Israeli forces apparently have withdrawn to the positions in eastern Sinai and on the gulf agreed on with UN authorities.

The Israelis are putting forward the same demands they made before hostilities, but with some shifts in emphasis. The Gulf of Aqaba question now seems to occupy first place, although they have by no means given up their demand for passage in the Suez Canal. The Israelis probably feel that the latter claim is not an immediate practical proposition in any event, while the Aqaba seaway is available to them now and all that need be done is to keep it that way.

The Israeli demand that Egypt stop instigating fedayeen terrorist and other attacks is tied in with the Israelis' suggestion that the UN force maintain a "buffer zone" in eastern Sinai. The continuation of fedayeen activity despite their own and the UN's occupation of Sinai has probably convinced the Israelis, however, that such a zone would have little practical effect. Tel Aviv thus may now see in this proposal only a step toward obtaining an admission from the UN either that that body has a responsibility for compelling Egypt to stop or that Israel has a right to take punitive action itself.

The Israelis apparently have decided to hold on to Gaza, although they have advanced no formal claim to the strip and continue to state officially that it is a subject for further negotiations. An Israeli administration has been installed there since November, and under its aegis the Arab mayor of Gaza town has resumed office. Histadrut, the Israeli labor co-operative organization, has been granted a monopoly on commercial food sales, and various other Israeli organizations have begun to operate there.

Against this background, the Israelis' determination to bar the return of the strip to Egyptian control looks very much like a determination to assimilate the strip permanently, despite the burden of 200,000 Arab refugees and the possibility

~~CONFIDENTIAL~~
~~SECRET~~

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

that Israel's forces may eventually have to make at least a token withdrawal behind the 1949 armistice line.

Egypt

President Nasr has stated that any long-term settlement with Israel at present is out of the question. He has suggested informally that a buffer zone comprised of Arab and Israeli territory be created all the way around Israel and occupied by UN troops--though not the UN Emergency Force now in Sinai.

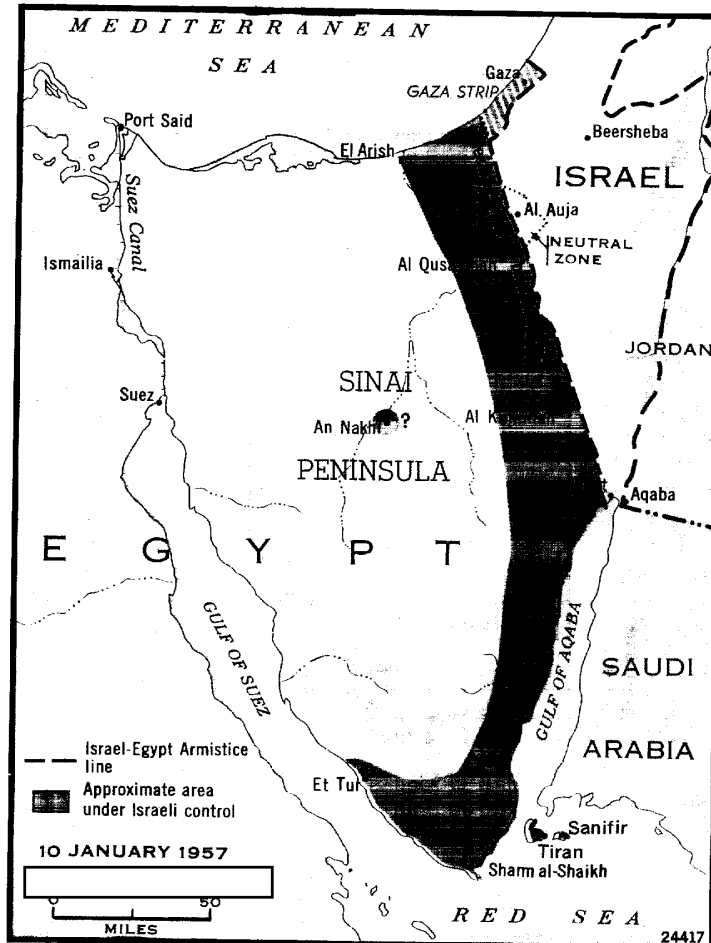
In addition to this plan, which almost certainly would be rejected by Israel, Cairo is now pressing the UN and individual Western powers to hasten complete Israeli withdrawal.

Cairo radio on 6 January quoted Nasr as stating that British and French ships will not be allowed to move through the canal until the Israelis withdraw. This announcement may be Nasr's substitute for threatening to suspend clearance operations, although the Egyptian ambassador in Damascus has raised the latter possibil-

ity in talks with American officials there.

Syria and Iraq

Syria is continuing to support Egypt's attempts to exert pressure by keeping the oil pipeline from Iraq to the Mediterranean closed. The Syrian Foreign Ministry had stated previously the line could be opened if the United

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

25X1

25X1

States would set a time limit for a complete Israeli withdrawal from Egyptian territory.

ADEN-YEMEN BORDER SITUATION

25X1

Attacks by Yemeni tribesmen and dissidents in the ill-defined border region separating the Aden Protectorate from Yemen and Saudi Arabia have increased since late November. This activity has been encouraged by Egypt, the USSR and Saudi Arabia and followed the arrival in Yemen in October of the initial shipment of Soviet bloc arms. Counteraction by British and native forces in the protectorate have been exaggerated by propaganda from Yemen, Egypt and Moscow for the purpose of further discrediting Britain and the West in the Arab world. Yemen has protested to the United Nations against the alleged incursions. London has addressed repeated protests to the Yemeni government.

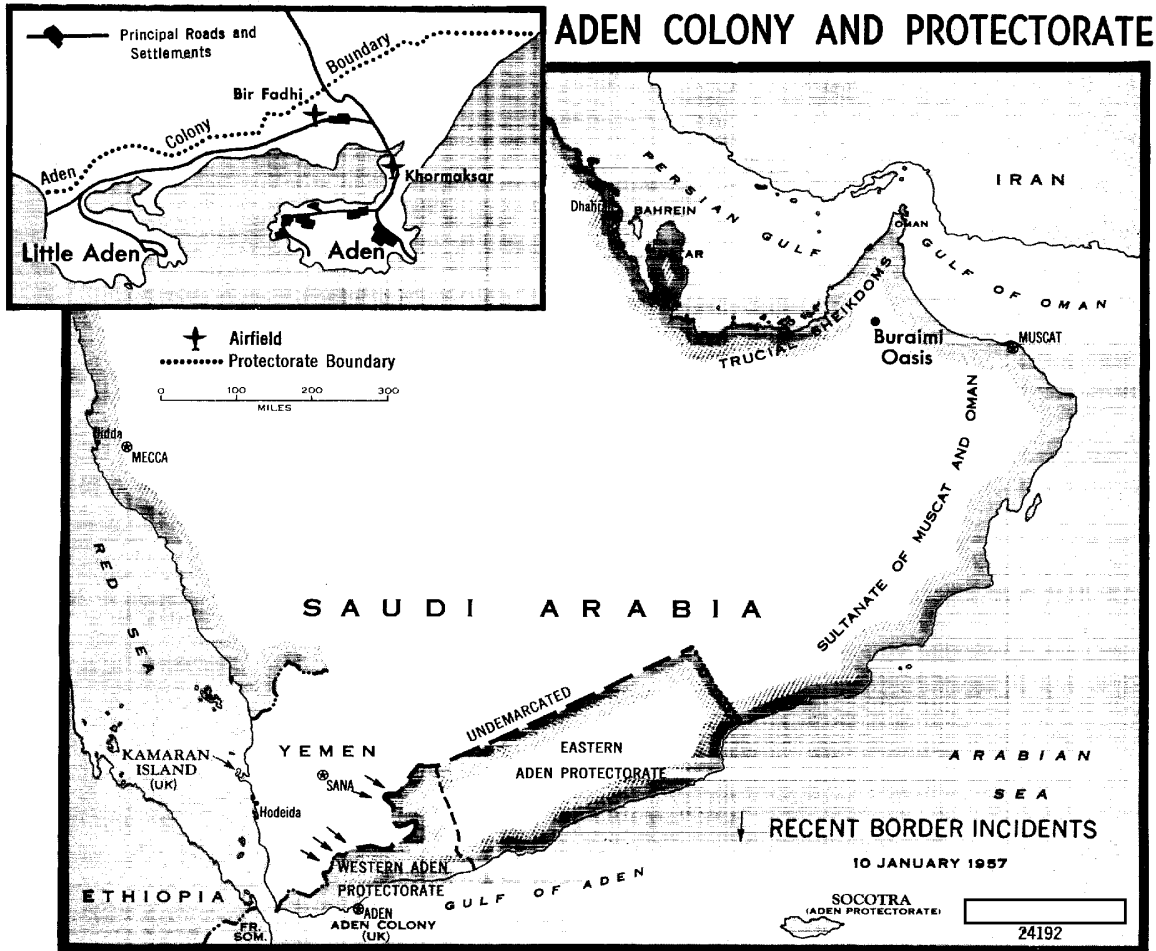
The Yemeni government radio meanwhile has demanded restoration by Britain of Aden Protectorate and Colony to the kingdom of Yemen.

~~SECRET~~

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957



25X1

Yemeni forays as well as signs of an organizational capability not heretofore evident. Whereas hit-and-run raids were previously the rule, the dissidents now have actually occupied villages and strong points until dislodged by superior forces.

The British apparently believe they can maintain control

of the situation with their limited air power and ground strength in the area.

25X1

SECRET

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

25X1

HUNGARIAN REGIME RETURNS TO COMMUNIST ORTHODOXY

After a two-month period of adjustment and consolidation, Soviet policy toward Hungary--as reflected in the Soviet-Satellite communiqué of 4 January and the subsequent declaration of Hungarian government policy--is now similar to Soviet policy toward all the other Satellites, excluding Poland. Although giving qualified lip service to some of its earlier pledges of a liberal and national Communist program, the regime's announcement of 6 January promised a tough internal political line aimed at re-establishing the firm control of the "proletarian dictatorship." It also proclaimed a foreign policy line which, under the aegis of

"proletarian internationalism," puts allegiance to the USSR above everything else.

New Hungarian Program

The Hungarian program announced on 6 January is a direct outcome of long talks in Budapest between Hungarian leaders and Soviet party first secretary Khrushchev and Presidium member Malenkov. It may or may not reflect the desires of the Hungarian government, which is staffed by a group of politicians who once subscribed to a more moderate, national Communist program. Earlier Hungarian regime promises apparently were sanctioned by the USSR solely for tactical

~~SECRET~~

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

reasons, although they may have meant something more to Premier Janos Kadar and his colleagues. Budapest has now rejected virtually all the political aims of the Hungarian revolution--defining it categorically as a counterrevolution sponsored by foreign elements.

Now that the regime has reasserted the aims and trap-pings of a traditional "people's democracy," the regime is emphasizing the importance of state discipline. It asserts that "counterrevolutionaries and elements who attack and incite against the lawful order" cannot share in "freedom" and will always be severely punished. The regime has re-established the secret police, in new garb but with the same old functions.

The Imre Nagy government is now declared to be guilty of treachery. A type of religious freedom has been extended, however, which allows optional religious instruction in the schools, but only with the caveat that "the leaders--the clergy--are expected to perform their missions in the interests of socialist consolidation."

This stiff political line is combined with a relatively mild economic policy. Although it has modified its liberal economic promises of the past two months, the regime has pledged particular attention to the need to raise the standard of living, to speed decentralization and debureaucratization, and to use workers' councils--though almost exclusively for the purpose of increasing production. The regime announced that native Hungarian resources will be used to better advantage,

that planning will in the future be on a more realistic basis, and that limited independent small crafts and private farming will be permitted.

For the first time, since the revolution, however, the regime has called for an expansion of the collective sector and indicated that those committing offenses against the "land of the working peasant and the property of the co-operative" would be severely penalized. Thus, the regime has decided to check the break-up of the collective movement which reportedly has affected over half of the socialized farm units.

Relations With the USSR

Soviet intervention is praised to the hilt and justified not only under the terms of the Warsaw pact but under the principles of "socialist internationalism." Lip service is given to the concept of friendly and "equal" relations, but the communiqué's references to "independence" are quickly followed by statements concerning the international solidarity of workers and the deep foundations of friendship with the USSR.

The government has stated that it intends to negotiate with the Soviet Union concerning the status of Soviet forces in Hungary and will start negotiations on an individual basis with the "various public personalities belonging to various parties or with those having no party affiliation" who are dedicated to socialism. In view of the new policy declarations, however, these qualified promises can scarcely gain any additional support from the people.

SECRET

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

The stiff line may actually spur the hostile public to renewed strikes and to limited acts of violence in an effort to demonstrate continued public opposition to Kadar. Continued instances of passive resistance and opposition from the literary sector will complicate any regime effort to get the

economy going, despite more realistic economic planning. The Kadar regime will probably face an increasingly difficult time during the next half year as the effects of economic dislocation, exhausted stocks and food shortfalls become most apparent.

(Concurred in by ORR)

25X1

THE SOVIET-EAST GERMAN AGREEMENTS

The agreements reached by the USSR and East Germany during talks concluded on 7 January are clearly intended to boost the East German regime's prestige, further its claims to the status of a sovereign nation, and shore up its shaky economy. The communiqué summarizing the agreements, like the recent Soviet-Rumanian and Soviet-Satellite communiqués, also reaffirmed the solidarity of the Communist world. Charging the United States and the other Western powers with endangering world peace in the Middle East and encouraging the attempt to "restore the Horthyite-Fascist regime" in Hungary, the communiqué stressed the devotion of the Communist countries to the cause of peace.

The two governments announced their intention to work out an agreement in conformity with their treaty of 20 September 1955 "which will regulate the questions deriving from the presence of Soviet troops on the territory of the German Democratic Republic...."

The 1955 treaty, granting sovereignty to East Germany,

stated that the conditions under which Russian troops would remain in the country would be governed by a future agreement. It also carried the provision that Soviet troops "stationed for the time being" in East Germany would not interfere in the country's domestic affairs. A status of forces agreement, when concluded, ostensibly will carry matters a step further by giving East Germany at least a nominal voice in determining the disposition, utilization, and rights of Russian troops on its territory.

The 7 January agreement characterized the existing quadripartite agreements on the use of air corridors between West Germany and Berlin by aircraft of the Western Allies as being "of a temporary and restricted nature" not affecting East Germany's sovereignty. While not denying the validity of the Allied right to use the air corridors, the statement may presage an East German attempt to exercise some kind of control over Western commercial air travel to Berlin.

~~SECRET~~

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

Economic Aid

Soviet economic assistance to East Germany will take several forms. Most important is a credit of 340,000,000 rubles (\$85,000,000 at the official rate) in gold and free currency for the purchase of goods on the world market. This credit is probably being extended as part of the 10-year loan, worth possibly \$250,000,000, which the USSR granted East Germany last July.

At that time Soviet bloc press reports claimed that Moscow had granted "financial relief" to East Germany worth \$1.875 billion, including a 10-year loan of unstated size, possibly as large as \$250,000,000, for the "purchase of goods."

Both countries will also undertake in 1957 to increase deliveries to each other by 30 percent as compared with 1956. The USSR will increase its exports to East Germany of coke, ferrous rolled metal, timber, and other industrial raw materials and foodstuffs, all desperately needed by East Germany.

Although not mentioned in the communiqué, East Germany's

precarious fuel situation and the vulnerability of the country's economy have been dramatically pointed up by the onset of winter. Both domestic and industrial fuel stocks are dangerously low, with supplies insufficient for household rations and industrial and power needs. The fuel shortage is a result of shortfalls in domestic brown coal production, coupled with Poland's failure to deliver coke and hard coal in the expected quantities. The low point is expected to be reached during the latter part of February when the situation will become critical unless the fuel shortage is alleviated by coal shipments from the Soviet Union or Poland.

The acquisition of \$85,000,000 worth of hard currency will probably have little appreciable direct impact on the East German economy. It may, however, have an important marginal effect in the immediate future in facilitating East German purchases from the free world of scarce raw materials and foodstuffs which the bloc has been unable to supply as a consequence of its own economic difficulties. []

[] (Concurred in by ORR)

25X1

25X1

* * *

~~SECRET~~

~~CONFIDENTIAL~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

PART II

NOTES AND COMMENTS

SOVIET POLICY TOWARD THE SATELLITES

The Soviet-Satellite communiqué of 4 January indicates that the evolutionary, post-Stalin trend toward greater autonomy for the Satellites and increased responsibility for their Communist parties has been halted. Although at least temporarily accepting the Gomułka regime in Poland, the USSR has insisted elsewhere on total conformity to its dictates and has repeatedly stressed the theme of unbreakable unity within the socialist camp.

The Joint Communiqué

The communiqué signed in Budapest by the USSR, Hungary, Czechoslovakia, Rumania and Bulgaria following four days of conversations enunciated general Soviet policy toward the Satellites with the exception of Poland. Although continuing to endorse the concept of Satellite "equality," Moscow placed major emphasis on the need for a "rallying" of socialist forces in the face of alleged Western attempts to renew the cold war and called for a "further consolidation" of the socialist nations.

The evidence suggests that the Soviet leaders now view their tentative policy of relaxing control over the Satellites as both unworkable and dangerous. Moscow is apparently endeavoring to establish its policy on some middle ground between the old Stalinist line and the more liberal post-Stalin approach.

Hard Political Line

Moscow has made clear that it never intended the idea of separate roads to socialism to

apply to the Satellites. Soviet party leaders apparently have decided to play a more direct role in the formulation of Satellite policies and in the "guidance" of Communist Party activities.

The USSR's optimism of a year ago in permitting its Satellites to relax or even reverse Stalinist policies has been destroyed by the Polish and Hungarian debacles. Soviet leaders have reappraised the extent of party loyalty to the USSR in the Satellites, particularly among the youth and intellectuals. Moscow is now taking strenuous measures to ensure that the Satellites maintain a disciplined and monolithic party structure.

The renewed and vigorous praise of Moscow apparent in numerous Satellite statements, the accelerated "vigilance" campaigns, and the reinstitution of large-scale arrests in Bulgaria and possibly elsewhere, have presumably been at least encouraged by Moscow to solidify Soviet control and local party power. The concept of a "commonwealth" of Communist states joined by common methods and aims may not have been scrapped as a theoretical proposition, but the timetable almost certainly has been drastically slowed down.

Yugoslavia and Poland, whose influence might tend to counterbalance these Soviet efforts to ensure continued control of the individual Satellites and the continued and unchallenged power of the indigenous parties, have been ideologically isolated by Moscow. The USSR has apparently prompted

~~CONFIDENTIAL~~

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

the Albanians to condemn Tito as a traitor to socialism, and the East Germans to censure the Poles for wayward policies and reactionary tendencies. The Budapest meeting in early January was a direct slap at the announced Polish-Yugoslav position that relations between Communist parties should be conducted on a bilateral basis. It may foreshadow the holding of such international Communist meetings on a regular basis.

The Soft Line

Although thus tightening its political controls, the USSR has continued to pay homage to "national sovereignty" in the Satellites and has reasserted willingness, at least eventually, to discuss the withdrawal of its troops from East Germany, Poland, Hungary and Rumania. It may also be planning to retain one important psychological feature of its post-Stalin policies, the granting of formal marks of stature and prestige to the individual Satellite parties and their leaders. The dictatorial, peremptory and superior attitude of Soviet officials dealing with Satellite functionaries does not appear to have been resurrected with the tougher political line.

The major aspect of the post-Stalin soft line to be retained involves economic policy. Since October the USSR has committed some \$2 billion in credit, loans and debt cancellations to the Satellites and apparently has authorized the Satellite regimes to make economic concessions to their discontented peoples. By shoring up shaky economies, raising living standards, and reducing centralized economic control, the USSR apparently hopes to counter any adverse effects of its firm political line.

Czechoslovakia may have been a factor in the Soviet decision to re-emphasize a soft economic line in the Satellites. The Czech regime has repeatedly, and with some justification, pointed out to its subjects that their country has a higher standard of living than any other country in Eastern Europe and that this standard can only be jeopardized by any foolish "reactionary" attempts to upset political stability. Attempts to raise standards of living in the other Satellites will probably form a key feature of forthcoming economic plans.

Soviet Policy Toward Poland

Following the Soviet-Satellite communiqué of 6 January, Poland stands alone, and Soviet policy toward the Satellites is split between its hard line toward the orthodox states and its present acceptance of the national Communist regime in Warsaw.

Despite this acceptance of the Gomulka regime and willingness to offer it economic aid, the Soviet leaders probably view Gomulka as a personal enemy and his policies as inadmissible corruptions of Communist doctrine. Moscow did its best to head off Gomulka's assumption of power and has not concealed its opposition to national Communism. Further, the humiliation inflicted on Khrushchev and other Soviet leaders in Warsaw in late October was a totally new experience for these men, one they can scarcely be expected to forget.

Moscow is probably already contemplating ways and means, short of using military force, of eventually getting rid of Gomulka and his supporters. In the meantime, however, aware of

SECRET

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

Gomulka's difficulties in re-asserting strong control over local party and government organs, Moscow probably will overtly support the present regime as the only one that

can possibly re-establish control of the country while nominally at least keeping it Communist and retaining its affiliations with the Soviet bloc.

25X1

SINO-SOVIET REACTION TO US MIDDLE EAST PROPOSALS

Moscow reacted to President Eisenhower's message to Congress on the Middle East with strong public denunciations. Moscow also contrasted the Soviet and American approaches to the Middle East, and Peiping and Moscow have cooperated in efforts to create an impression of world-wide hostility to the President's proposals.

The most authoritative Soviet reaction was set forth in the Moscow communiqué issued on 7 January following the Soviet-East German talks, which described the "Eisenhower doctrine" as "an attempt to justify in advance aggressive actions by the American imperialists designed to reimpose on the Eastern peoples the yoke of colonial oppression." The Budapest communiqué on 4 January also condemned the "flagrant intervention" of the United States in the Middle East and warned that this would create a grave crisis in this area.

Soviet propaganda has stated that with Soviet aid the Arabs are capable of "filling their own vacuum."

The Soviet-East German communiqué gave additional indications that the USSR apparently intends to compete openly with the United States on economic matters in the Middle East. The USSR and East Germany declared their readiness to promote the "all-around expansion of businesslike co-operation" with Middle East countries.

Bulganin emphatically stated to the French ambassador in Moscow on 4 January that the sole aim of the USSR was to keep foreign armies out of the Middle East, and that American aims in the area went far beyond Suez Canal and Arab-Israeli problems. According to reports of the conversation given to Ambassador Dillon by the French, Bulganin and Shepilov said the problems of free navigation through the Suez Canal and protection of the canal from political control by one state could be solved.

Soviet propaganda attacked the plan in a manner reminiscent of early Soviet opposition to the Marshall Plan and NATO, suggesting that Moscow's anti-American propaganda campaign

~~SECRET~~

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

may revert to "cold-war" intensity. The joint communiqué on the Budapest meeting of the USSR and Satellites said that the "socialist nations are doing everything within their power" to prevent the reversion to the "cold war" and that "all responsibility" for any aggravation of the Middle East situation would lie with the United States.

Chou En-lai, in an airport speech at Moscow on 7 January, said the Eisenhower proposals had already aroused the disapproval of all "peace-loving states." Moscow may be expected to sound out Chou during his visit this week to give further public evidence of the Soviet bloc position on the President's proposals. Peiping's propaganda blasts attempt to link American

policy with traditional "imperialism" in the Middle East. The Peiping People's Daily asserted the United States was planning to suppress national independence movements "from Gibraltar to the Arabian Sea" and turn all countries in the area into American colonies and military bases.

Moscow is attempting to build up a picture of world-wide hostility to the Eisenhower proposals. The Soviet press last week carried dispatches from the Middle East and India citing Egyptian, Syrian and Indian press criticism and reports from Britain alleging that the President's message was received with reserve, uneasiness and resentment at the realization that the United States now plans to do what Britain was prevented from doing.

25X1

INDONESIA

The Masjumi's withdrawal from the Indonesian cabinet on 9 January, although a heavy blow to the Ali government, does not necessarily mean its immediate downfall. Ali's survival will depend on the action of the other major Moslem party, the Nahdlatul Ulama (NU), which previously had stated it intended to support Ali's National Party to preserve the cabinet. Although both the small Catholic and Christian parties may follow the Masjumi in withdrawing from the cabinet, the remaining parties would still have at least 114 seats in parliament to the opposition's 79 and could also count on Communist Party support.

Ali has the strong support of President Sukarno, who has reiterated his desire to preserve the cabinet at all costs until the Sumatran problem is solved.

The Masjumi's withdrawal probably will encourage dissatisfied elements in Sumatra. These groups want greater local autonomy, the resignation of the Ali cabinet, and the return of former vice president Hatta to the government, preferably as prime minister of a "presidential cabinet" not responsible to parliament.

Government political promises and financial concessions to Central and South Sumatra

~~SECRET~~

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

have had no effect on the situations there. They appear rather to have strengthened the position of Colonel Hussein, leader of a successful army coup in Central Sumatra, and to have increased local determination elsewhere in Sumatra to persist in political demands.

The cabinet has approved financial measures already taken in Sumatra, and parliament has passed a bill, now awaiting Sukarno's signature, providing for local elections of provincial governors. Government concessions undoubtedly will stimulate demands from other non-Javanese areas. A group in South Borneo has already requested autonomy and a greater share of money earned by local resources.

The military situation in North Sumatra is stalemated, with government leaders and rebel commander Colonel Simbolon apparently searching for a political solution and instructing their followers to avoid bloodshed unless attacked. As of 9 January, Simbolon was reported in Central Sumatra, presumably for talks with Colonel Hussein.

The principal danger of conflict now appears to be in the Siantar area of North Sumatra among Communist-led estate workers who have been armed by the local regimental commander. Although the North Sumatran government has suspended licenses for civilian use of arms, it is most unlikely that the arms can be reclaimed, and clashes with pro-Simbolon forces remain a possibility.

25X1

THE KASHMIR DISPUTE

Pakistan's new proposal for action on a plebiscite in Kashmir, which is expected to be presented to the UN Security Council on 15 January, may result in deeper UN involvement in this dispute between India and Pakistan. Such a development would be a defeat for Indian policy, which has sought for the past two years to minimize UN interest in the problem. Pakistani failure in the UN could result in popular pressure within Pakistan which might eventually cause Karachi to attempt to force UN action by inspiring new incidents in Kashmir.

Throughout the eight-year-old dispute, Pakistan has been willing to comply with the UN's plebiscite resolutions. On the other hand, India has insisted in recent years that the principle of a plebiscite no longer applies because of "changed conditions" resulting

from American military aid to Pakistan. Despite a UN resolution of 1951 stating that the government of the Indian-occupied portion of Kashmir has not the authority to dispose of the state, the state government has, with Indian compliance, drawn up a constitution providing that Kashmir will become an integral part of India. This constitution, which is to go into effect on 26 January, is responsible for Pakistan's present move.

Bolstered by the support for a UN settlement given by SEATO in March 1956, Pakistan's position now appears stronger than in the past. Taking advantage of the precedent of the UN Emergency Force in Egypt, Pakistan proposes the replacement of Indian and Pakistani troops now in Kashmir by a UN force, which together with a plebiscite administrator, would

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957



Council. If the issue comes before the General Assembly, the Indian-supported state government's record of suppression of political opposition and disregard of the UN might win support for Pakistan and split the Asian-African bloc. Whether or not Pakistan would be able to muster the two-thirds vote necessary for action by the General Assembly is still uncertain.

25X1

Both India and Pakistan are waging an intense propaganda battle on the Kashmir issue.

The most significant of these charges are India's claims that 40 battalions of Pushtoon tribesmen who invaded Kashmir in 1947 are being mobilized by Pakistan for another attack and Pakistan's announcement that it may not be able to prevent a mass passive resistance movement of Kashmiri refugees from Pakistan into the state.

carry out the terms of the plebiscite agreement. Should the Indians refuse to consent to this procedure, Pakistan apparently intends to offer to withdraw its troops unilaterally if a UN force will replace them. This move is aimed at destroying India's argument that its troops are necessary to protect the security of Kashmir against Pakistan's forces.

Top Pakistani officials have privately admitted that if a UN force cannot be obtained, they would be satisfied with the dispatch of a nonmilitary UN group, provided such a group would implement the plebiscite agreement and not merely engage in a new "fact-finding" mission. The Pakistani prime minister on 2 January sought American support when he said that any retrogression of American backing of the plebiscite principle would be considered "an outright betrayal of the Pakistani government" resulting from Nehru's visit to the United States.

India can probably rely on a Soviet veto in the Security

Since this kind of propaganda has appeared during earlier phases of the dispute, nothing is likely to come of it if Pakistan can get any kind of positive UN action toward a plebiscite. However, Pakistani prime minister Suhrawardy was recently forced to counter internal criticism of his pro-Western foreign policy in the Middle East crisis by emphasizing the advantages gained through association with the West. Should his present approach to the UN fail, he might feel compelled to initiate disturbances within Kashmir in order to turn the long-standing quarrel into an emergency situation.

25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

INDIA'S FOREIGN EXCHANGE CRISIS THREATENS SECOND FIVE-YEAR PLAN

The decline in India's foreign exchange reserves to the minimum level of safety has forced New Delhi to seek at least \$100,000,000 from the International Monetary Fund. Such assistance would ease only temporarily India's foreign exchange problem, which is caused chiefly by rising prices for the industrial goods needed to fulfill the Second Five-Year Plan (1956-61). Unless India receives increased foreign aid, it probably will have to reduce the scope of the plan, which will have grave political consequences, since Prime Minister Nehru and the Congress Party have committed their prestige to its fulfillment.

The decline in reserves is mainly the result of a sharp rise in outlays for Indian imports. From April through September 1956, imports were nearly \$180,000,000 above planned levels, chiefly because of poor planning and a general price rise. These unexpected setbacks have reduced Indian reserves since April 1956 by \$453,000,000 to \$1.113 billion which is regarded as the minimum level of safety. These figures do not include the fixed gold reserve of \$247,000,000.

The government has imposed import restrictions on over 500 nonessential items, reduced funds for foreign travel, and added a number of products to the

official export promotion list. It claims that these measures will save \$63,000,000 in the next six months, but even with such a saving India would still have a large foreign trade deficit. Therefore unless India adopts even more stringent import restrictions, the assistance it receives from the International Monetary Fund will afford only temporary relief.

Most of India's imports are industrial products or industrial raw materials which cannot be curtailed without reducing the Second Five-Year Plan, or are essential consumer goods such as foodstuffs which cannot be reduced without increasing the already serious inflationary pressures. Despite the dangers in attempting to reduce agriculture imports, the government leaders seem to be moving in that direction. They have raised the 1961 agricultural production goal from 18 percent to 28 percent over the 1955 level, apparently in the hope that higher domestic production will enable them to reduce agricultural imports and thus conserve several hundred million dollars in foreign exchange. The chances of achieving such sharp increases in production are not bright, however, and unless India receives significant increases in foreign aid, it probably will have to reduce the scope of its plan.

25X1

COMMUNIST CHINA'S ECONOMIC PROGRAM

Communist China scored impressive economic advances during 1956, particularly in heavy industry, but there are signs that a nagging concern over the economic imbalances resulting from

the overriding priority given heavy industry may induce modest changes in Peiping's planning.

In 1956, according to Chinese Communist preliminary

SECRET

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

figures, the value of industrial production was 25 percent higher than in 1955 and was, in fact, 4 percent over the 1957 target for the First Five-Year Plan.

More than 20 of the 46 types of industrial products listed in the plan reached 1957 target levels in 1956. The total amount of capital construction rose by 60 percent over 1955; notable additions

were made to the nation's industrial capacity, as 140 important plants and mines were put into operation. Important new industrial items, such as trucks, jet aircraft and naval vessels, were produced in China for the first time.

On the whole, Peiping has commented on these achievements with considerable satisfaction. Some concern has been expressed, however, over the serious shortages of key construction materials which developed during 1956. A widening discrepancy between the growth of heavy industry on the one hand and of light industry and agriculture on the other has begun to worry Peiping's planners.

In mid-November, Premier Chou En-lai, noting that there had been some "overspending" during 1956, called for "suitable retrenchment" in 1957. Chairman Mao lent his prestige to a renewed austerity campaign which has reached even into the armed forces.

Highly centralized control of industry and commerce did not work to the complete satisfaction of Peiping and a "free market" in a sharply restricted list of handicraft and consumer

CHINESE COMMUNIST PRODUCTION CLAIMS-1956

[REDACTED] (MILLIONS OF METRIC TONS, EXCEPT AS NOTED)

	1955	1956	PERCENT INCREASE	ADDITIONS TO PLANT CAPACITY
PIG IRON	3.6	4.6	28	.7
STEEL	2.9	4.4	52	1.3
COAL	93.6	105.1	12	8.0
ELECTRIC POWER (BILLION KWH)	12.3	15.3	24	.6 (MILLION KW)
CEMENT	4.5	6.4	42	.6
AMMONIUM SULFATE	0.324	0.444	4	
PETROLEUM	0.966	1.166	21	.2
GRAIN	184.0	194.0	5	
COTTON	1.5	1.56	4	

10 JANUARY 1957

70107 5

25X1

commodities was inaugurated. A promise by the regime to give 90 percent of the peasants who joined co-operatives an increase in income appears doubtful of achievement despite such measures as altering the price differential between urban and rural goods in favor of the peasant and reducing his grain delivery quotas.

Recent press stories out of Peiping have spoken of serious revisions being made in the draft Second Five-Year Plan.

25X1

[REDACTED] the rate of over-all investment foreseen for the plan is to be lowered and the relative allotment given heavy industry reduced. The benefits derived from these changes are to be passed on to the Chinese peasant. Peiping's concern over peasant dissatisfaction reportedly motivated consideration of these changes.

Proposals for the Second Five-Year Plan were presented to the eighth party congress in September 1956. Peiping has not yet indicated that it intends major alterations in its

~~SECRET~~

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

draft plan. It may be that the leaders in Peiping, impelled by events in the rest of the Sino-Soviet bloc, as well as by the strains in China's economy, may be considering the advisability

of making certain adjustments in economic plans in favor of the Chinese consumer, especially the peasant. [REDACTED]
(Prepared by ORR)

25X1

VENEZUELA TO INCREASE ITS LATIN AMERICAN AID PROGRAM

Venezuela is devoting new attention to developing a Latin American aid program, apparently to raise its prestige in the Organization of American States (OAS) and other regional organizations and to increase its influence in the Caribbean. Panama and Haiti have been the principal recipients under the program thus far, while Colombia, Ecuador, and Bolivia are reported under consideration for loan benefits. Venezuela, which has the largest per capita revenue and strongest fiscal position of any Latin American nation, is also sponsoring a proposal for a general Latin American development fund.

Since early 1954, Venezuela has maintained a military mission in Panama--11 officers and men at present--for training the Panamanian national guard. Venezuela has supplied arms, ammunition, and a number of grants to train Panamanians in Venezuela. Caracas also reportedly considered granting financial aid to Panama in 1956 for highway construction and budgetary purposes, including a loan of \$8,000,000.

In June, Venezuela approved a loan of about \$3,000,000 to Haiti for airport construction and expressed interest in financing other Haitian public works, apparently on Haitian request. Venezuela is also planning a military mission for Haiti.

Bolivia, Ecuador, and Colombia, which are faced with serious exchange or financial deficits, have recently turned to Venezuela for assistance. The Bolivian president indicated in October that Venezuela was prepared to grant to his country a "purely political" loan of \$1,000,000 or \$1,500,000 at 0.5 percent interest, and the president of the Bolivian senate reportedly discussed other possible aid as well during his visit to Caracas in October.

Visiting Caracas during the same month, the Ecuadoran minister of public works was seeking a loan for public works projects and obtained a favorable official reception, although the final decision depends on a study to be made by Venezuelan engineers. More recently, Venezuela has opened negotiations with Colombia to consider Venezuelan financing for construction of a thermal electric plant.

The Venezuelan regime of Perez Jimenez, striving to remove the stigma of authoritarianism, is now sponsoring a Latin American development fund to be used in the "less developed" countries. Introduced at the Panama meeting of American presidents last July and later presented to the OAS, the proposal calls for contributions from all OAS member states prorated at about 3.75 percent

~~SECRET~~

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

of the national budget of each country. Under the plan, the three largest contributors would be the United States,

about \$2.5 billion; Brazil, about \$135,000,000; and Venezuela, about \$32,000,000.

25X1

BRITAIN'S FINANCIAL SITUATION

Early January figures show that Britain's prompt and massive reinforcement of its gold and dollar reserves with credits from the United States and the International Monetary Fund (IMF) has stemmed the critical drain on the reserves. The outlook for the next few months is favorable, but delayed effects of the Suez Canal closure and basic weaknesses in Britain's international trading position leave the long-term outlook dubious.

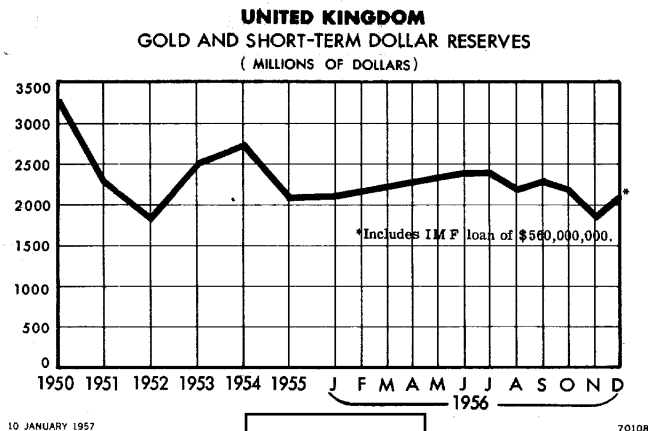
Speculative pressure on sterling eased immediately following the announcement on 10 December that some 40 percent of Britain's \$1.3 billion credit with the IMF was being withdrawn to strengthen the reserves. Britain was thus able to close the year with total reserves slightly higher than at the end of 1955. The

net loss suffered during December--excluding special non-recurring payments--was only \$158,000,000 as compared to November's loss of \$279,000,000, and British Treasury officials point out that this was all incurred prior to the IMF credit on 10 December. By 5 January, the pound was quoted fractionally above \$2.79 for the first time since 25 July.

British officials expect further increases in the gold and dollar reserves in early 1957--partly from seasonal tendencies normal to the first half of the year and partly from a continuation of the improvement in Britain's trading position which took place in 1956. The government's measures to curb inflation and redirect production for export were reflected in a 10-percent rise in exports over 1955 totals while imports rose only by some

3 percent. Further encouragement is found in the fact that the November trade deficit of \$45,000,000 was the lowest in several years and that exports to the United States during that month were the highest on record--some 24 percent above the rate for the first 10 months of 1956.

The full effect of the canal closure on Britain's balance



SECRET

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

of payments, however, has not yet been felt. Export industries will gradually be faced with rising prices for imported raw materials, and a further deterioration of their competitive position relative to the United States, West Germany and Japan may result. Approximately \$40,000,000 must be spent each month for dollar

oil to replace that previously obtained from the Middle East for the United Kingdom and its customers on the European continent. Even the IMF's unprecedented reinforcement of the gold and dollar reserves has left Britain with a margin of safety still precariously thin for handling coming fluctuations. [REDACTED]

25X1

KREMLIN ATTACKS "ALIEN" CULTURAL INFLUENCES

Soviet propaganda is continuing its campaign for vigilance with attacks on "alien influences" on the Soviet population, particularly historians, philosophers and scientists. Soviet intellectuals in general were called on "to guard the purity of Marxist-Leninist theory, to wage an unrelenting struggle against bourgeois ideology, and to strengthen Communist indoctrination of the masses." The editors of the ideological journal Problems of Philosophy abjectly apologized for their laxity in ideological questions and joined in the criticism of the questioners of the validity of Communist dogma.

After three months of silence, Party Life, authoritative organ of the central committee, resumed its debate with the editorial board of Problems of History over the treatment of certain aspects of prerevolutionary history. The party journal sharply attacked the reply by the editors of Problems of History last August to criticism of their handling of the various opponents of Bolshevism in early party history. Party Life charged that the historical journal, by treating the activities of the Mensheviks and "opportunists" too favor-

ably, had minimized the dangers emanating from bourgeois ideology.

In the past few months, the historical journal has been under heavy criticism in the party press for its "sensationalism" and "haste" in revising the history of the early Soviet period.

In tune with the intensified campaign of ideological intimidation, Problems of Philosophy lashed out editorially against those Soviet intellectuals who had used the de-Stalinization campaign to question the validity of Communist doctrine and to disparage the entire Soviet theoretical and cultural achievement under Stalin. Stalin's "correct" theories, the editorial asserted, were being attacked along with the erroneous ones. The editorial criticized Soviet scientists for their "nihilistic attitudes" toward Communist doctrine and charged that elements among Soviet youth, influenced by Western ideas, had been advocating the establishment of free competition of ideas in the USSR.

In a spate of "self-criticism," the editors of the philosophical journal

SECRET

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

apologized for their laxity in publishing an article in a previous issue which had openly advocated the abolition of party controls in the arts. This article, which was severely criticized in Pravda, Izvestia, and other official organs, attributed the stagna-

tion in Soviet culture to bureaucratic interference in the form of "bossing and all kinds of repression." The apology was in response to a demand in Pravda on 26 December that the journal reorganize its work and "undeviatingly adhere to the principles of Communist party-mindedness." [REDACTED]

25X1

* * *

~~SECRET~~

~~CONFIDENTIAL~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

PART III

PATTERNS AND PERSPECTIVES

THE CHINESE COMMUNIST VIEW OF "ROADS TO SOCIALISM"

The Chinese Communists regard the "road to socialism"--for Peiping or any other Communist regime--as requiring essential fidelity to the Soviet model in constructing a new society and a close alliance with the Soviet party and state. The Russians and Chinese agree that Peiping's gradual approach to such problems as collectivization is an example of the acceptable variation from the Soviet pattern under the theory of varying "forms of transition" to socialism.

The Russians and Chinese have not seemed in full agreement, however, on the question of intrabloc relationships. The Chinese, who have preserved their organizational freedom from Soviet control, in recent months have criticized some aspects of Soviet policies in Eastern Europe. Peiping apparently sees its role as that of exercising a moderating influence on all parties, in the hope that the Sino-Soviet type of relationship can be developed in Eastern Europe.

Mao's Road to Power

Mao Tse-tung, working apart from the Comintern-sponsored Chinese Communist Party leadership, began to develop his road to power in the late 1920's. He adopted Leninist practices and applied them to a peasant rather than proletarian base, and relied on peasant armies and control of strategically located, self-supporting bases in parts of China where Nationalist power was weakest. Mao became dominant in the Chinese Communist Party in 1935 during the Long March, and was endorsed by the Kremlin the same year.

The Mao leadership continued to maintain its organizational freedom from Soviet control after 1935. For example, Liu Shao-chi, one of the most strongly pro-Soviet of Chinese leaders, nevertheless ensured that the party's Manchurian bureau rather than the Soviet army, was in control of Chinese Communist personnel working with Soviet forces in Manchuria in 1945-46.

It was Liu who was chosen in 1948 and 1949 to set forth the Chinese Communist view that the "road to socialism" necessarily involves an alliance with the USSR and recognition of Soviet leadership of the world Communist cause. In endorsing the Cominform's expulsion of Yugoslavia, Liu described Tito as "employing national conservatism and exclusive ideas to oppose proletarian internationalism" a course which could "never accomplish anything in the cause of socialism." Liu denounced Tito, not for resisting Soviet control--the real issue in the dispute--but for refusing his "voluntary" allegiance to Moscow, an allegiance the Chinese themselves had gladly given.

The Peiping Regime

Some months before establishing the Peiping regime in 1949, Mao Tse-tung restated the theme of the interdependence of "socialism" with the Soviet alliance. Promising that the Chinese would "travel the road of the Russians," Mao argued that the Chinese Communists could not win or keep their victory without Soviet aid. Such aid would be needed to avert the threat of "international reactionary forces" and gain the material goods and

~~CONFIDENTIAL~~
~~SECRET~~

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

technical services the Chinese did not have.

The People's Republic of China was proclaimed a "people's democratic dictatorship." A concept original with Mao, it did not substantially differ in its internal application from the "road" worked out for the Eastern European states. The regimes in both cases have included the "patriotic" bourgeoisie, displayed docile non-Communist parties, seen the necessity of a mixed economy for some time, and planned to avoid the fierce "class struggle" of the Soviet transition. There was one critical difference, however, between the Peiping regime and the Eastern European Satellites: the Satellites were organizationally controlled by Moscow, and Peiping was not.

Mao's "Creative Adaptations"

In the early years of the Peiping regime, Soviet theorists, justifying the Kremlin's break with Tito, insisted that the Soviet forms of "transition to socialism" be followed closely and that socialism could not be achieved without a bitter class struggle. In this period the Kremlin was consistently describing the Peiping regime as a "people's democracy" to which the same injunctions presumably applied.

Unlike the Satellites, however, the Chinese did not "smash" their bourgeoisie, expropriate private industry, and purge their "national deviationists." They pursued their comparatively moderate and gradual course, describing themselves as adapting Marxism-Leninism to Chinese conditions.

The official Chinese program of a "peaceful," "step-by-step" transformation of the economy was neither so peaceful nor so gradual as Peiping

claimed. Probably 2,000,000 to 3,000,000 Chinese were killed, and many millions were economically ruined in the agrarian and other campaigns of 1950-52. Nevertheless, the Chinese are to some degree correct in regarding Mao's program as a "major contribution" to the practice of Marxism-Leninism. The Chinese casualty figures fall far short of those of the Soviet collectivization programs of the 1920's and 1930's. In the final, critical phase of agricultural socialization and transformation of most private industry and commerce--a phase begun in the summer of 1955--major violence apparently has not been necessary.

After Stalin's death in 1953, the Chinese won increasing praise from the Kremlin for their "creative adaptations" of doctrine. In 1956, Khrushchev hailed the "many peculiarities" of the Chinese transition as "creative Marxism" in action. Shepilov praised the Chinese for an approach so "creative" that, from a doctrinaire viewpoint, it amounted almost to "trampling under foot the principles of Marxism-Leninism."

Problem of Tito

The Yugoslav-Soviet rapprochement of 1955--fortified by the Soviet 20th party congress concession that there were various roads to socialism--presented real problems for Peiping as well as for Moscow, in view of Tito's insistence on forcing issues. The Chinese--in Liu's original article on Tito in 1948--advocated the "complete equality of, and freedom of federation or separation for, all nations, large or small, strong or weak." The Chinese had also endorsed, however, the concept of "proletarian internationalism," the main point of Liu's article of 1949--which involved recognition of Soviet hegemony among Communist states and parties.

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

The Chinese Communist Party was the only one in the bloc which both concepts fitted. The central problem for the Chinese in regard to Tito was that Tito was insisting on freedom from Soviet control, such as the Chinese had, without promising his allegiance or intending to give it.

In September 1956, at the Chinese Communist 8th party congress, A. I. Mikoyan argued that the USSR had made no statements that justified any Communist state in taking a Titoist path. Conceding that each country in making the "transition to socialism" has its "distinctive features," Mikoyan quoted Lenin in emphasizing that they can relate "only to what is not most important." Mikoyan praised the Chinese for "major contributions" which, as he correctly implied, were not so major as to challenge the Soviet model in its "most important" aspects.

Chinese Divergence

The Chinese Communists approved the Soviet campaign against the "cult of the individual" announced at the 20th party congress but did not accept the Soviet implication that the Khrushchev leadership was thus immune from making mistakes of its own. The Chinese argued that any group of Communist leaders might make mistakes in the future or even repeat past mistakes. The Chinese specified that one of Stalin's mistakes was advocating "certain erroneous lines in the international Communist movement, especially on the question of Yugoslavia."

When the issue of Soviet-Eastern European relations was dramatized by the Poznan riots of June 1956, Peiping declined to give its complete support to the Soviet line. Peiping took a middle position: it

attributed the riots both to Western agents and to workers' legitimate grievances, arguing that Western agents could not have succeeded if there had been no grievances to exploit.

Poland's Ochab and Hungary's Kadar were delegates to the Chinese party congress in September 1956.

25X1

The Chinese clearly did not wish to encourage the Poles and Hungarians to go so far as Gomulka went or so far as Kadar originally aspired to go. Peiping's propaganda treatment of Eastern European developments instead suggested Chinese support for efforts by Eastern European states to achieve a position similar to Peiping's own--freedom from Soviet control in the context of allegiance to the Kremlin. Chinese broadcasts during the Polish party plenum in October noted Polish "concern" over the visit of the Khrushchev delegation and Polish demands for defense of "national sovereignty," while reporting favorably the Polish intention to maintain Warsaw's alliance with the USSR.

The Chinese Communists endorsed immediately the Soviet declaration of 30 October which admitted past "violations and errors which demeaned the principle of equality" between Communist states and which promised to correct them. Peiping went beyond the Soviet statement in describing Polish and Hungarian demands as "completely proper" and in sharply criticizing "great-nation chauvinism" as the cause of "serious damage" to socialist solidarity.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

10 January 1957

Solidarity on Hungary

On 2 November, with the Hungarian situation getting out of control, Peiping began to emphasize a theme that has since dominated its comment on Eastern Europe--that the "highest duty" of bloc countries is to maintain their unity, regardless of past mistakes. Arguing that "a new cause cannot be immune from errors," the Chinese pleaded for recognition that all such errors "can be corrected and eliminated."

Peiping's immediate endorsement on 4 November of Soviet armed intervention in Hungary was still consistent with its previous advocacy of more independence within the bloc. The Chinese statement made a clear distinction between a Communist regime which intended to remain in the bloc, as it described the Gomulka government, and a non-Communist or anti-Communist regime which intended to leave the bloc.

Peiping's own accounts of Soviet errors, however, had put the Chinese Communists in an unhappy position in trying to justify Soviet actions either to themselves or to their Chinese audience. A Western diplomat in Peiping observed that in a large public meeting on 11 November, criticism of the Anglo-French action in Egypt received ready applause, while approving references to the Soviet action in Hungary were received in complete silence. Similarly, Peiping's main editorial on the Soviet-Polish talks of November 1956 invited the Hungarian people to accept them as evidence that Soviet policy toward Eastern European states "is truly one of equality, friendship and mutual assistance," rather than one of "conquest, aggression and plunder."

In this same editorial, however, Peiping returned to its argument that there had been mistakes in the past, "there are now, and mistakes will not be entirely avoided in the future." The editorial presented Peiping's official formula for preserving the solidarity of the bloc: the larger nations must "pay more attention to avoiding the mistake of great-nation chauvinism--this is the main thing"; the smaller nations must "avoid the mistake of nationalism."

Criticism of Tito

On 29 December, Peiping spelled out for Tito--and no doubt for other Eastern European leaders--its view of what is "fundamental" for any socialist state, as agreed to previously by Soviet and Chinese theorists: the establishment of a Communist dictatorship, the exercise of power on behalf of the working class and other classes regarded as friendly at a given stage; the nationalization of industry and the step-by-step collectivization of agriculture and the planned development of the economy; and an alliance with the world Communist movement under the slogan of "proletarian internationalism."

Peiping's pronouncement thus rejected key features of Yugoslav domestic and foreign policies. It should also have made clear to the Poles that the Chinese, while supporting Gomulka's effort to attain freedom from Soviet control, do not approve all features of Gomulka's domestic and foreign programs.

The Chinese statement gave Tito some comfort with regard to his charge that there are "wrong and defective views" among Soviet leaders on the question of relationships with

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

10 January 1957

Eastern European states. Peiping repeated its contentions that the Stalinist course in Eastern Europe was mistaken, and that the "primary task" of the international Communist movement is still that of overcoming "great-nation chauvinism."

The 29 December pronouncement also carried a statement on relationships among Communist parties, in terms similar to China's formula pertaining to Communist states: "Communist parties must seek unity with each other as well as maintain their respective independence. Historical experience proves that mistakes are bound to occur...if one or the other (aspect) is neglected." In practice, "concerted action" should be attained by a "genuine, not nominal exchange of views."

Future Course

Peiping's continuing emphasis on the need for bloc unity does not mean that Moscow is assured of immediate Chinese support for any course it may take, as the Chinese have said repeatedly that the maintenance of solidarity depends on proper conduct by all parties. Peiping apparently sees its role as one of exercising a moderating influence on all parties in the hope that the Sino-Soviet type of relationship can be developed in Eastern Europe.

Chinese party leaders are probably emphasizing in talks with the Russians their publicly stated admonitions about avoiding "great-nation chauvinism" and permitting other Communist parties some

degree of freedom within the bloc. In talks with Eastern European leaders, the Chinese are likely to emphasize the other side of the coin--the need to avoid the error of "nationalism" and the need to maintain "unity" with other Communist parties.

The Chinese Communists will probably watch closely the development of Soviet-Eastern European relationships in order to judge whether, in their view, the Kremlin's behavior is consistent with the long-range interests of the bloc. Specifically, Peiping is on record with the hope that "whatever was wrong in the relations between the Soviet Union and Hungary will be resolutely put right by the Soviet Union,...as in the case of the Polish comrades." The Chinese will probably not be diffident in continuing to state their views privately to Moscow, and Chinese support is probably too important to the Russians for Peiping's views to be disregarded.

Despite Peiping's obvious hope that a showdown between the Kremlin and Eastern Europe can be avoided, the Chinese would almost certainly support Moscow in such a case. Liu Shao-chi was expressing a genuine Chinese Communist conviction in September when he said that the party leadership regards the maintenance of the Sino-Soviet alliance as its "supreme international duty." The alliance is essential to the Chinese Communists even as nationalists. Beyond the practical benefits derived from their alliance with Moscow, the Chinese are genuine international Communists and see no prospect of attaining an eventual world Communist order without the Kremlin.

25X1

SECRET

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

NEW PIPELINES FOR THE MIDDLE EAST

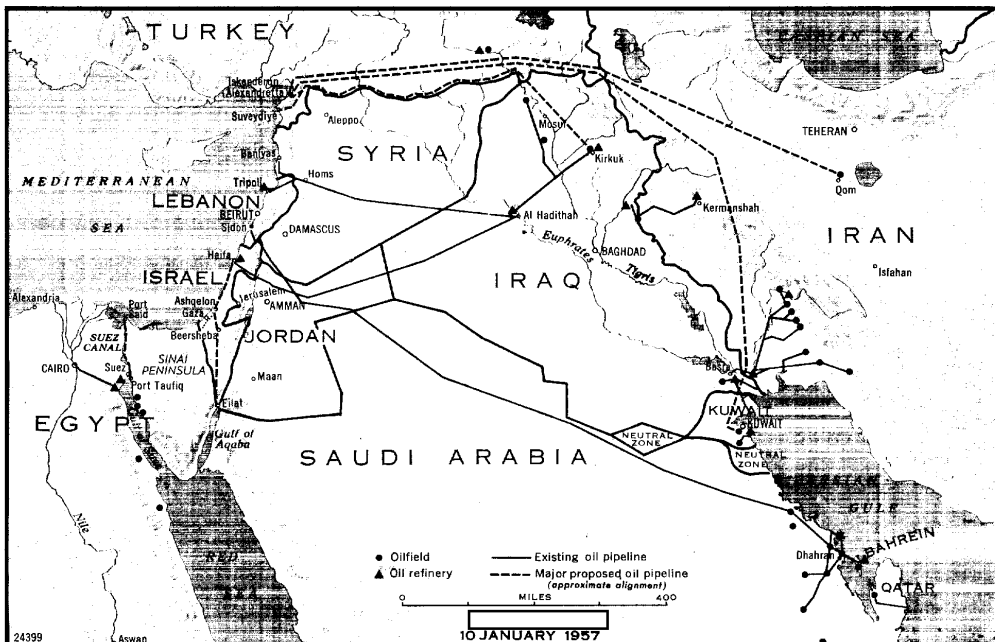
Western Europe's rapidly increasing need for oil and the limited capacity of the Suez Canal made the construction of new pipelines to carry Middle East crude to Mediterranean ports necessary even before the canal's closure. Demand for Middle East oil in Western Europe averaged 1,800,000 barrels daily in 1955 and is expected to reach a minimum of 2,700,000 barrels daily by 1961--a 50-percent increase. Tankers totaling about 23,490,000 dead-weight tons are on order or are building, but are largely in the super-tanker class, which will be unable to transit the canal when fully laden. New pipelines to Mediterranean ports would in any case greatly increase the annual lift of the present and proposed world tanker fleet.

While these proposed pipelines would be economically sound, Egypt's nationalization of the Suez Canal on 26 July and subsequent British, French and Israeli reactions have

introduced political factors, which in the present climate may prevent or seriously delay completion of most of them. At present, the most important proposals involve four pipelines through Israel, Egypt, Iran, Iraq and Turkey.

Israel

Since 1948, when the 85,000-barrel-per-day Haifa refinery--now operating at about 20,000 barrels per day--was cut off from its source of Iraqi crude, Israel has entertained the idea of constructing a pipeline from the Gulf of Aqaba to Haifa. The proposed line would be a substitute for the Iraq Petroleum Company (IPC) line which carried Iraqi crude through Jordan to Haifa before the start of the Arab-Israeli war in 1948. There have been three main limiting factors to this project; the cost, the control of the Gulf of Aqaba by Egypt, and the absence of an assured source of crude oil.



25X1

~~SECRET~~

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

The recent statement by French foreign minister Pineau that France was ready to share in the cost of construction, Israel's refusal to withdraw from the Sinai coastal strip along the Gulf of Aqaba without a guarantee of free passage, and the stationing of Israeli naval vessels in the area appear to have reduced the first two problems. The source of crude, however, is far from assured, since no Arab state would supply it under present conditions. Apparently Iran would offer no objection to supplying at least some crude, and possibly the British, despite the political risks, might be able to arrange for some of their Kuwait production to go to Haifa.

Reports of the proposed pipeline are confusing. One suggests it would be from 30-32 inches with a capacity of from 400,000-500,000 barrels daily (20,000,000-25,000,000 tons annually). Another states that the line would be only 16 inches. In either case the route would be from Eilat to Beersheba and thence to Ashkelon and Haifa. Such a pipeline would bring badly needed foreign exchange to Israel since all but a small amount of the petroleum would be exported to Western Europe. An eight-inch pipeline with a 16,000-barrel-per-day capacity is now under construction from Aqaba to the Mediterranean. Since even this small line can carry considerably more oil than Israel now produces--only about 2,000 barrels daily--Tel Aviv evidently plans to import oil via the Gulf of Aqaba. The source of these imports, however, is not known.

Egypt

Taking advantage of the petroleum shortage caused by the blocked Suez Canal, Greek shipowner Constantine Onassis has proposed in negotiations with the Egyptian government that an emergency 500,000-

barrel-per-day pipeline be installed now along the canal route, the pipeline to be owned by Egypt, with Onassis receiving royalties. Onassis has said he intends to ask each oil company operating in the Middle East to "lend" 20 miles of pipe so the project can get under way at once. According to Onassis, the emergency pipeline could be completed in about six months at a cost of about \$35,000,000.

Originally Onassis had put forth a plan for either three 32- or two 48-inch pipes running from Port Taufiq to Port Said, a distance of approximately 120 miles. Such a pipeline would have a capacity of from 950,000 to over 1,000,000 barrels per day--equivalent to about 80 percent of the petroleum carried through the canal just prior to Egypt's nationalization action.

In addition to the Onassis negotiations, the American Getty Oil Company is also conducting negotiations with Egyptian officials for a similar pipeline. The company holds an oil concession over Saudi Arabia's interest in the neutral zone and produced an average of 13,600 barrels per day during the first half of 1956. Under the terms of the Getty offer, the Egyptian government would own 60 percent of the proposed pipeline company and the Getty firm 40 percent. Presumably the ownership ratio would also be the same basis for sharing the profits of the proposed pipeline. This suggested departure from the 50-50 formula of profit sharing which generally obtains in the Middle East would have serious implications for other Western oil firms, and result in a general weakening of their positions with respect to the oil-producing countries.

While these proposed pipelines have some economic advantages, the political implications

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

10 January 1957

of even more dependence on Egyptian good will for uninterrupted passage of petroleum would seem to make lines through Egypt less attractive to major Western oil interests than others which have been proposed.

Iran

An American group is considering construction of a pipeline from Iran through Turkey to the Mediterranean. The project would be a joint venture and include, as one of the principals, the Shah's brother-in-law Shafiq. The pipeline would be an outlet to Western European markets for the government-operated Qom fields in northern Iran, where a recent strike indicates enormous reserves. There are indications that survey work is likely to begin shortly.

The cost of the line has been estimated at about \$500,000,000 and although the size has not been stated, it probably would be on the order of 30 inches, giving an ultimate capacity of some 500,000 barrels per day (25,000,000 tons annually).

There are a number of problems in connection with this proposal, however, not the least of which is the traditional Iranian propensity for making elaborate plans and doing nothing. Aside from this there is the delicate relationship with the consortium of Western oil companies which is presently responsible for marketing the bulk of Iranian petroleum. The advantages of having a non-Arab source of crude at the Mediterranean, however, makes the venture attractive to Western interests.

Iraq

Proposals to build a new pipeline through Turkey from

the Kirkuk fields in northern Iraq have attracted numerous Western companies. The advantage of having a pipeline pass through strongly pro-Western Turkey was demonstrated when the 540,000-barrel-per-day Iraq Petroleum Company pipelines through Syria were sabotaged and Iraq's revenues thereby drastically reduced. While the proposals are still in the talking and initial survey stage, estimates of the size and cost and approximate route have already been made.

Pipelines ranging from 32 to 37 inches have been proposed at a cost of about \$191,000,000 and \$239,000,000 respectively. While the capacities of the alternate lines are not known, a minimum of 500,000 barrels per day would have to be carried to make the venture profitable. Present planning is not firm with regard to the terminus of the lines, and both Iskenderun and Suveydiye are being considered. Iraq is also considering diverting the long inoperative Haifa pipeline to Lebanon as a means to step up oil exports in a relatively short time.

Persian Gulf

A proposed Persian Gulf-Turkey-Mediterranean pipeline, the most ambitious of all, is still only in the talking stage. However, such a venture--skirting Jordan and Syria--would have particular significance for British-controlled Kuwait and non-Arab Iran. These two countries, which account for the bulk of the oil shipped through the Suez Canal, stand to gain the most from any alternate means to transport their oil to consumers in Western Europe. Kuwait oil alone accounted for about one half of all oil transiting the canal

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

before Nasr's nationalization action last July.

No firm figures are available, but a 36- to 40-inch pipe with a 1,000,000-barrel-per-day capacity has been mentioned for this line. Construction of the line, however, even if a decision were reached in the near future, would probably take at least five years in view of the shortage of large pipe and the fact that no surveys have yet been made.

Reactions in Area

Turkey has welcomed the proposal to run the Iraq and Iran pipelines through its territory. The revenue likely to accrue from transit fees and the crude oil payable as royalties would reduce the

heavy drain on Turkey's limited foreign exchange resources. Iraqi sensitivity to Syrian opinion has resulted in Baghdad's playing down the alternative route through Turkey, especially while the present IPC lines remain inoperative. Publicly, Iraqi officials still tend to emphasize both a new line through Syria and the diversion to Lebanon of the inoperative Haifa line.

Egyptian reaction to the proposals which have been made public is largely that regardless of what countries the pipelines run through, the source of the oil is still Arab countries and this fact is the most important. Cairo and the other Arab states see this as a permanent bar to Arab oil running through Israel.

25X1

* * *

SOVIET RELATIONS WITH EGYPT AND SYRIA SINCE THE CEASE-FIRE

Since the cease-fire on 6 November, the USSR has encouraged Egyptian obstruction of a settlement of area problems and has promoted Syria as another base for Soviet activity in the Middle East. Soviet propaganda has supported Egypt's positions in the Suez conflict and has encouraged Cairo to be adamant in its demands against Britain, France and Israel. Moscow appears particularly concerned about the effects in the area of the Eisenhower doctrine and the upswing in American prestige. Accordingly, Soviet propaganda media are attempting to turn Arab nationalism against the United States and arouse Arab suspicions of American intentions in the Middle East. At the same time, Moscow has inten-

sified its anti-Israeli propaganda campaign.

Egypt

The sequence of events surrounding the cease-fire in Egypt allowed the USSR to claim that Premier Bulganin's threatening notes of 5 November had compelled Britain, France and Israel to halt their operations and that it was Moscow that had saved the Arab world from imperialist aggression. The outcome of the three-power attack has probably increased the Soviet leaders' confidence that they can proceed vigorously to exploit the Middle East situation without undue risk.

Moscow's immediate objective following the cease-fire was

SECRET

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

to bring about the early withdrawal of the three-power forces from Egypt. The USSR sought to increase pressure on Britain and France and to impress the Arabs by announcing on 10 November that, if the three powers did not withdraw, the "appropriate authorities of the USSR will not hinder the departure of Soviet citizen volunteers who wish to take part in the struggle of the Egyptian people for their independence." The fact that the Soviet leaders withheld this threat until it was reasonably certain that hostilities would not be renewed suggests it was largely bluff.

By mid-November, the USSR resumed shipments of nonmilitary cargoes to Egypt, including much-needed fuel oil, kerosene and wheat.

The Soviet leaders appear confident that future negotiations on the Suez and Palestine questions will provide opportunities for further extending their influence and prestige in the Arab world. They are encouraging the Arabs to ask for terms for a Suez settlement even more favorable than those outlined in the UN Security Council's six principles adopted last October.

The Soviet government probably hopes to make a major issue of the reparations question because of its potentialities for promoting anti-Western feelings in Egypt and the Arab states and delaying an agreement on a final settlement. The USSR already has insisted that the cost of salvage operations in the canal should be borne by "the aggressor."

Moscow will probably seek to encourage Arab-Israeli tension and Arab hostility toward Britain and France in order to block Western efforts to bring about an early settlement of the Palestine problem. Soviet representatives at the UN, [redacted]

[redacted] have been constantly urging the Arabs to insist on the most favorable terms for a Palestine settlement. Moscow may press the Arabs to adopt an uncompromising position on partition lines and refugees based on the 1947 UN resolutions and is already encouraging the Arabs to believe the USSR favors the eventual elimination of Israel.

25X1

25X1

In its relations with Cairo, Moscow has apparently employed the utmost restraint during this period. Nasr told Ambassador Hare on 1 December that the Russians had not attempted to "peddle Communist propaganda" and had neither mentioned Cairo's "strict surveillance" of Soviet technicians nor connected Cairo's treatment of local Communists with the arms deals. He added that the Russians had shown a "great ability in the psychological field."

Syria

Soviet relations with Syria have grown steadily closer since the Moscow trip of President Quwatli, who returned to Damascus on 5 November--the day before the cease-fire--amid reports, still unconfirmed, that the USSR might be willing to sign a nonaggression pact with Syria.

~~SECRET~~

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

25X1

Soviet and Egyptian influences in Syria and may view it as an example for use elsewhere in the Middle East, particularly in Jordan. Certainly proposals for a Syrian-Egyptian union, which were again publicized on 3 January, and Arab replacement of Britain in Jordan will find stronger Soviet favor in the light of the Eisenhower doctrine.

* * *

At the end of November, Moscow mounted a heavy propaganda barrage designed to deter what it suspected were plans by Britain, France, Israel and Syria's Baghdad pact neighbors to intervene to overthrow the leftist regime in Damascus. In Copenhagen, Foreign Minister Shepilov claimed that he had "incontestable information" that Britain, France and Israel intended to attack Syria, Lebanon and other Middle Eastern countries. Moscow attempted to remove any pretext for Western action against Syria by announcing on 8 December that the withdrawal of Western forces from Egypt had caused the USSR to cancel its offer to send Soviet volunteers to fight in the Middle East.

The formation of a leftist Syrian government on 31 December was described by Radio Moscow as "more homogeneous" and better fitted to "remain neutral between East and West." Moscow may well attribute the anti-Western composition of the new government to combine

The Soviet leaders probably believe that a strong anti-Israeli line will be one of their most effective weapons for strengthening their influence throughout the Middle East and blocking American moves in this area. They probably calculate that a threatening Soviet posture toward Israel will compel the United States to take up a position as defender and guarantor of Israel against hostile Communist and Arab pressures. Such a position, in the Soviet view, would make it increasingly difficult for any Arab government, no matter how well disposed toward the United States, to be identified with American aims and interests in the Middle East.

In the two months since the cease-fire in Egypt, the USSR apparently has succeeded in reinforcing its position of influence in Egypt which had been endangered by the Anglo-French-Israeli attack and apparently still believes that Nasr is in a sufficiently secure position to continue as

~~SECRET~~

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

a major force in disrupting the Western position in the Middle East.

Although the USSR probably welcomed the easing of tensions over Syria as diminishing the threat of direct Western involvement, it probably believes its interests are being advanced by continued tension in the Suez area.

The USSR's chief concern, however, is apparently the ef-

fects of the Eisenhower doctrine in the area and the upswing in American prestige. Accordingly, Soviet propaganda has attempted to turn Arab nationalism against the United States through a full-scale attack on the Eisenhower doctrine designed to convince the Arabs that it is aimed at ensuring a continuation of Western "imperialist" interests in the Middle East and that American intervention is a new threat to Arab independence.

(Concurred in by 25X1
ORR)

* * *

MOLLET GOVERNMENT FACES UNCERTAIN FUTURE

Premier Mollet will be in a precarious parliamentary position when the National Assembly reconvenes on 15 January and his policies in Europe, the Middle East and North Africa come under fire. At the same time, the economic impact of the canal closure is undermining his efforts to control inflationary pressures and further weakening France's financial position.

Debate on government-supported proposals for a European common market is the first order of business and may provide an indication of the attitude of the deputies. Prospects for a majority are uncertain, and Mollet may be forced to accept a number of preconditions in order to win assembly acceptance. He probably hopes, however, to capitalize on the present trend in France favoring a unified Europe as a means

of offsetting the "anticolonialist" UN and of minimizing the polarization of the world between the United States and the USSR.

Considerably more political wrangling will probably result from the premier's "declaration of intent" on Algeria on 9 January. Mollet renewed his offer of a cease-fire and his pledge of general elections three months after a cease-fire. He stated that election observers from democratic countries would be welcome and that France would be willing to discuss with elected representatives of Algeria a federal-type status for the area. Mollet is counting on this to counter expected attacks on his policy in the UN General Assembly discussion late this month.

At the same time, however, his continuing reliance on the

~~SECRET~~

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

right-center for support has obliged him to back the pacification policy of Minister to Algeria Lacoste, despite pressure from his own party for negotiations leading to a ceasefire. Both the left and the right have already become increasingly critical of his Algerian policy and will become more so if France fares badly in the UN discussions.

The full parliamentary impact of the oil shortage is expected later this month or early February when Mollet must ask the assembly for \$25,000,000 to \$42,000,000 toward the expenses of the intervention in Egypt, as well as for \$855,700,000 for the Algerian war, in addition to the sums for this purpose already included in the budget. Many Frenchmen blame the gasoline shortage on the Socialist government, and even leaders of political parties supporting Mollet have been predicting his overthrow by February. Though it may be premature to predict that the "gasoline affair" in itself has finished Mollet, the varied repercussions of the Suez intervention will probably eliminate much of his remaining strength in the assembly.

Economic Problems

The oil shortage has intensified economic and financial problems which were becoming serious even before the Suez crisis. Strong inflationary pressures had already been generated by full employment and the inability of industrial output to keep pace with booming domestic demand. These pressures were aggravated by industrial bottlenecks and by increased take-home pay and production costs.

The government attempted to counter inflation by rationing gasoline, regulating prices, and increasing imports, but even so had to juggle the cost-

of-living index to keep it below the point legally requiring new wage negotiations which would probably have resulted in increased consumer purchasing power. Increased imports relieved some of the pressure on prices by sopping up purchasing power, but they also accentuated the disparity between imports and exports in France's balance of trade, which as long ago as October necessitated a stand-by credit of \$263,000,000 from the International Monetary Fund.

The intensified pressures since Suez are seen partly in the government's budgetary difficulties. The 1957 national budget as passed by the assembly in December calls for expenditures of almost \$12.9 billion, excluding both the cost of Algerian pacification and the extraordinary oil expenditures. This figure is \$740,000,000 over the 1956 budget, and increases in revenue are expected to do no more than hold the total deficit down to the 1956 level of \$2.3 billion. The decrease in revenue expected from oil and gasoline consumption and industrial production has already forced the Finance Ministry to write off previously anticipated receipts of \$570,000,000.

The French gold and dollar reserves, already being depleted by the hard-money cost of increased imports, face a further drain as a consequence of the Suez intervention. An additional outlay of \$100,000,000 is anticipated to pay for the 6,000,000 tons of western hemisphere oil now needed. Closure of the Suez Canal has exacerbated the coal shortage--which will cost another \$30,000,000 in foreign exchange to alleviate--as well as other shortages in raw materials such as cotton. By mid-November, gold and dollar reserves were already down to \$1.3 billion, and the American embassy in Paris estimates that

~~SECRET~~

~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

10 January 1957

by mid-1957 they will probably fall below \$1 billion, which is generally considered the minimum safe working balance.

The oil shortage's full impact on industry will probably become more apparent later this month. If the present shortage begins to ease in March, its effects can probably be limited to a small decline of approximately 2 percent in production and confined mostly to the automobile industry. Even so, an inflationary spiral will probably be stimulated by the present trend toward wage and price increases.

A far more serious situation will evolve if the oil shortage lasts until mid-1957. Gasoline rationing in the tourist season would mean an additional loss of foreign exchange, and continuing drains

on the Exchange Stabilization Fund would further undermine confidence in the government's financial position. Gold prices have been climbing since the Suez crisis, and the black market dollar value of the franc, which had dropped to about 380 this summer, is again up to 400 as compared to the official rate of 350.

In any event, the Mollet government--or any likely successor--faces an increasingly difficult future. The psychological impact of rationing, shortages, production cutbacks and layoffs can be expected to accentuate popular revulsion against the economic self-discipline required by the situation, and this popular attitude will probably be reflected in growing parliamentary irresponsibility.

25X1

* * *

~~SECRET~~

